

OFFICE OF AUDITS
MEMORANDUM REPORT 98-CG-014
SURVEY OF U.S. INFORMATION AGENCY
FREEDOM SUPPORT ACT FUNDING TO THE NEW INDEPENDENT STATES
JUNE 1998

This memorandum presents the results of the Office of Inspector General's (OIG) survey of program assistance provided by the United States Information Agency (USIA) to the New Independent States (NIS) of the former Soviet Union. In 1992, Congress passed the Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act (P.L. 102-511). The act, commonly referred to as the Freedom Support Act, was passed to provide economic assistance to the former Soviet Union.

The conference report for the FY 1995 Foreign Operations Act directed OIGs, in agencies and departments receiving funds under the Freedom Support Act, to audit activities funded in the NIS. Accordingly, OIG performed this survey to determine (1) the amount of funds the Department of State (Department) transferred to USIA under interagency agreements, (2) the amount of funds USIA awarded to grantees, and (3) the extent to which USIA had developed and implemented procedures to provide financial and programmatic oversight of NIS programs.

The survey showed that during FYs 1993 through 1996,¹ the Department transferred about \$248.6 million to USIA. The Department transferred about \$224.4 million under section 632 (a) of the Freedom Support Act. Under this section of the act, the receiving agency becomes accountable for the funds. Of the \$224.4 million received, USIA awarded about \$195.3 million to 146 nonprofit organizations. USIA also established specific controls to ensure compliance with the financial and programmatic monitoring requirements of the Freedom Support Act. Specifically, USIA:

- required independent financial audits of grantees receiving \$25,000 or more in Federal funds;
- restricted award amounts and required accounting system reviews for first-time grantees;

¹ OIG limited the scope to FYs 1993 through 1996 because all funds had been spent and program activities had been completed for these fiscal years.

- provided the Department, on a country-by-country basis, periodic updates on project activities, fund obligations, and accrued expenditures; and
- developed and implemented a three-part plan to monitor and evaluate exchange programs that included (1) attitudinal surveys of program participants, (2) contacts through the grantee organizations, and (3) domestic and overseas on-site program reviews.

Although OIG began its survey in June 1996, work was subsequently suspended because of resource constraints, the consolidation of OIGs in the Department and USIA, and other higher-priority work. OIG's Office of Audits, Contracts and Grants Division, completed the survey work between November 1997 and February 1998.

OIG will use the survey data as a baseline for future audits of NIS programs funded under the Freedom Support Act. For example, OIG plans to conduct work at selected U.S. and foreign grantees and U.S. Information Service (USIS) posts to determine whether grantees met program objectives and other requirements of their grant agreements and whether USIA coordinated and evaluated the programs.

BACKGROUND

The Freedom Support Act aids the NIS in implementing political and economic reforms by providing financial and technical assistance. The NIS consists of 12 former republics of the Soviet Union excluding the Baltic states, which were never recognized by the United States as part of the Soviet Union.

The United States economic assistance program to the NIS is unique in that many U.S. Government entities are involved in assistance activities. However, a large portion of this assistance is appropriated via the Foreign Assistance Act to the United States Agency for International Development (AID). AID then transfers funds to other executive branch departments and agencies. The FY 1995 Foreign Operations Appropriations Act Conference Report stated that in "those instances where a transfer or allocation does not constitute an obligation--which includes those under section 632(a)--the ultimate responsibility for programmatic and financial accountability should fall on the agency receiving and obligating the funds."² Accordingly, section 632(a) agreements provide that the recipient agency will account for the funds, ensure funds are obligated and expended in accordance with applicable law, and comply with audit requirements.

The President designated a coordinator for the NIS program (S/NIS/C) within the Department of State. S/NIS/C takes the lead role in coordinating assistance activities of all U.S. Government agencies and providing policy guidance for ongoing and proposed assistance activities, including funding levels. Within USIA, the Office of East European and Newly Independent States (USIA/EEN), in coordination with the Bureau of Educational and Cultural

² H.R. Rep No. 103-633, 103d Congress, 2d Session 28 (1994).

Affairs (E Bureau), is responsible for implementing and administering exchange programs for democracy building in the NIS.

USIA's NIS programs focus on democratization, rule of law, free market reform, free and independent media, and educational reform. The agency employs several types of mechanisms to aid in attaining these reforms. The principal mechanism used is the exchange visit, which ranges from short-term visitor programs to long-term academic degree programs. Exchanges are complemented through such efforts as in-country training from U.S. experts, art exchanges and exhibits, and news and information services. Examples of specific programs are the:

- Edmund Muskie Fellowship program, which brings qualified NIS college graduates to the United States for graduate study programs in law, business, economics, and public administration; and
- Secondary School Initiative, which enables high school students from NIS countries to study in the United States, and American high school students to attend school in the NIS.

MONITORING FREEDOM SUPPORT ACT FUNDING

As of June 30, 1997, the Department transferred about \$248.6 million in NIS funding to USIA for FYs 1993 through 1996. USIA assumed financial and programmatic accountability for about \$224.4 million transferred during the period and awarded about \$195.3 million in grants. USIA used the remaining funds for contracts and miscellaneous costs and administrative expenditures. USIA had established procedures and controls to account for Freedom Support Act funds and monitor NIS exchange programs.

Accounting for Freedom Support Act Funds

USIA had established controls that would allow it to properly account for the receipt, obligation, and expenditure of Freedom Support Act funds. As part of these controls, USIA (1) required grantees to have an independent audit attesting to how grant funds were used, (2) requested OIG's assistance in conducting preaward reviews, and (3) established award amount limits and required accounting system reviews for grantees managing Federal funds for the first time. Further, to fulfill Department reporting requirements, USIA/EEN provided the Department quarterly reports on project activities, fund obligations, and expenditures on a country-by-country basis.

USIA awarded 433 grants to the 146 nonprofit organizations and used the independent audit as the primary tool to ensure proper accountability of Federal funds. We found that 420 of the 433 grants (97 percent) were subject to audit under the requirements of the Office of Management and Budget (OMB) Circular No. A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*. During FYs 1993 through 1997, the circular required organizations receiving \$25,000 or more to have an independent audit.

To further ensure accountability, OIG conducted desk reviews of independent auditor reports and conducted followup work to make sure USIA had required grantees to implement audit recommendations. OIG, at USIA's request, also performed an audit of USIA grantee compliance under OMB Circular A-133 (Memorandum Report USIA-CG-97-4, dated September 1997). The audit disclosed that almost 75 percent of the grantees had submitted required audit reports. Because the circular and grant agreements mandate audits and because most grants were subject to the requirement, a built-in control existed to monitor the expenditure of Freedom Support Act funds.

USIA's general funding guidelines limit initial award amounts to \$60,000 for organizations with less than 4 years of experience in conducting international exchange programs. Also, USIA's procedures for organizations receiving grant funds for the first time require accounting system surveys to ensure the grantee can properly account for Federal funds. OIG provides assistance on these types of preaward reviews. For example, when USIA first received NIS funds in 1993, OIG conducted preaward reviews of 24 first-time grantees. The reviews consisted of 17 preaward desk reviews that included evaluating information provided by the grantee and 7 on-site accounting system surveys that assessed whether these new grantees had financial systems capable of accounting for Freedom Support Act funds.

Furthermore, USIA/EEN maintained detailed informal accounting records regarding exchange programs for democracy building in the NIS. Therefore, the office could provide the Department and OIG with country and project activity reports that included cumulative obligations and expenditures. The appendix to this report identifies the cumulative obligations by program and country for FYs 1994 through FY 1996. USIA was not required to report this type of information for FY 1993.

Monitoring Freedom Support Act Programs

USIA had established procedures to monitor and evaluate its NIS exchange programs. For example, USIA required grantees to submit quarterly and final project activity reports. In 1994, USIA also developed a three-part plan to evaluate and measure progress on its NIS exchange programs. The plan included:

- surveying attitudes of program participants,
- tracking participants by contacts through the grantee organizations, and
- conducting on-site program reviews at domestic and overseas grantees.

During 1995, USIA began to implement this plan. For example, USIA/EEN and the E Bureau commissioned the Pelavin Research Institute to perform an analysis of the impact of Russian undergraduate, graduate, and faculty exchanges funded under the Freedom Support Act. To provide additional monitoring of its programs, USIA also planned to systematically track returned participants through grantee organizations. To accomplish this tracking, USIA included a clause in the grant agreements that required grantees to maintain a permanent presence in the

NIS (field offices) and to maintain contact with returning participants through alumnae networks, newsletters, and electronic mail and to promote continued contact among participants with their American counterparts.

In addition to regular grant monitoring, USIA program officers worked with USIS offices to conduct more thorough reviews of the impact of assistance funds. USIA program officers traveled to sites throughout the United States and NIS to evaluate assistance programs. For example, program officers traveled to universities participating in partnership programs to examine how curricula at NIS institutions changed since the start of the grant.

USIA also chairs an interagency working group that coordinates about \$2 billion a year in international exchange and training programs for 40 Federal departments and agencies. USIA's FY 1999 Performance Plan contains a performance objective that the working group develop--and recommend to the President by July 17, 1999--performance measurement standards for all U.S. Government-sponsored international exchange and training programs.

CONCLUSION

USIA had instituted reasonable procedures and controls to meet its financial and programmatic responsibilities with respect to Freedom Support Act funding. OIG has not tested the effectiveness of the procedures and controls, but will do so in future reviews that examine specific NIS grants and grant programs.

Appendix - FYs 1994 Through 1996 NIS Funding by Country and Program